



U.S. Department of Justice

*United States Attorney
District of New Hampshire*

*Federal Building
55 Pleasant Street, Room 352
Concord, New Hampshire 03301*

603/225-1552

MEDIA RELEASE

**For Immediate Release
Thursday, August 19, 2004**

**Contact: William E. Morse
Assistant U.S. Attorney
Thomas A. Hanusik
Senior Counsel for Securities
Fraud, Fraud Section
Michael L. Koenig
Trial Attorney, Fraud Section
U.S. Department of Justice
(603) 225-1552**

**FORMER ENTERASYS OFFICIAL PLEADS GUILTY
IN ACCOUNTING FRAUD SCHEME**

CONCORD, NEW HAMPSHIRE - Peter E. Papps, Acting United States Attorney for the District of New Hampshire, and Assistant Attorney General Christopher A. Wray of the Criminal Division, U.S. Department of Justice, announced that today **Gayle Spence Luacaw** of Newfields, New Hampshire, a former executive of **Enterasys Network Systems, Inc.**, pleaded guilty in U.S. District Court in Concord, New Hampshire to a charge of Conspiracy to Commit Securities Fraud. The criminal charge was based on accounting fraud which took place at the computer network products company as part of a scheme to falsely inflate Enterasys' revenue in order to meet Wall Street projections. **Luacaw** served as Vice President of Inside Sales and Executive Assistant to the Chief Executive Officer of the company, which was formerly based in Rochester, New Hampshire.

In her plea agreement with the government, Luacaw admitted that she entered into a conspiracy with other Enterasys officials to falsely and improperly inflate Enterasys' public revenue reports. She admitted that on or about September 19, 2001, she learned that a sales document for a \$4 million transaction with potential Hong Kong customer Ariel International Technologies Co., Ltd. included terms that would prevent Enterasys from recognizing or reporting any revenue from the transaction for the company's fiscal quarter which ended on September 1, 2001. Luacaw further admitted that later that day, as part of the conspiracy, she directed others at Enterasys to obtain an altered version of the sales document which removed the problem terms, and to backdate the altered version to August 31, 2001. She further admitted knowing that the altered and backdated document would be transmitted to Enterasys' outside auditors with the intention of causing the auditors to believe that the altered and backdated document had been entered into on August 31 and that a final and complete purchase order satisfying the revenue recognition requirements had existed as of that date. Finally, Luacaw

admitted that transmitting the altered and backdated document to the auditors would and did cause Enterasys to report substantial amounts of revenue that it should not have recognized for the fiscal quarter ending September 1 and to report falsely that it had met publicly announced revenue targets, under relevant accounting rules.

In her plea agreement, Luacaw also admitted that she engaged in a scheme to falsify Enterasys' books and created a secret side letter in connection with a potential sale by Enterasys to SAP A.G., a German commercial computer solutions company. Luacaw admitted that, on or about December 20, 2001, she drafted and executed a secret side letter granting SAP an eighteen month right to exchange approximately \$2 million in Enterasys product that SAP was purchasing. She also admitted that she knew that, under relevant accounting rules, the eighteen month right of exchange would prevent Enterasys from recognizing revenue for the transaction in the company's fiscal quarter ending December 29, 2001. Luacaw admitted that on several occasions she instructed SAP not to reference the right of exchange in SAP's purchase order, which normally would be reviewed by the company's outside auditors. She further acknowledged that the purposes of the side letter and the instruction to SAP regarding the purchase order were to prevent Enterasys' outside auditors from learning about the right of exchange and thereby to allow Enterasys to improperly report on its books and records \$2 million in revenue for the fiscal quarter ending December 29, 2001.

Luacaw faces a potential sentence of up to five years imprisonment and a fine of up to \$250,000. Luacaw's sentencing is scheduled for March 21, 2005.

Anthony L. Hurley, Enterasys' former Assistant Controller, and Gary M. Workman, the former president of Enterasys' Asia-Pacific Sales Division, each entered guilty pleas in connection with the scheme in May of this year. They are also scheduled to be sentenced in March 2005. Two additional defendants charged in the scheme are scheduled to go to trial in October 2004.

This case is being brought under the auspices of the President's Corporate Fraud Task Force. The investigation was conducted by the Federal Bureau of Investigation and the U.S. Postal Inspection Service and was coordinated with a civil investigation conducted by the SEC's Central Regional Office in Denver. The case is being prosecuted by Assistant United States Attorney Bill Morse, and, from the Department of Justice's Criminal Division, Fraud Section, Senior Counsel for Securities Fraud Thomas Hanusik and Trial Attorney Michael Koenig.

#